

Message Text

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C O N F I D E N T I A L ZAGREB 259

PASS EXIMBANK

E.O. 11652: GDS
TAGS: ENRG, BENC, TECH, PFOR, YO, US
SUBJECT: KRSKO CONSTRUCTION PROGRESS REPORT - MARCH 17

REF: ZAGREB 167

1. WESTINGHOUSE REPS DON PARSONS, KRSKO PROJECT MANAGER, AND
BUD SIMMONS, WORLD-WIDE DIRECTOR FOR NUCLEAR PROJECTS, MET WITH
CONGEN POLITICAL/ECON OFFICER MARCH 17 TO PROVIDE UPDATE ON
STATUS OF KRSKO PROJECT CONSTRUCTION.

2. PARSONS INDICATED THERE WAS LITTLE THAT WAS NEW SINCE HIS
PREVIOUS MEETING (REFTEL) BUT HE WANTED TO STAY IN CLOSE TOUCH
WITH THE CONGEN AND DID HAVE TWO POINTS TO MAKE. FIRST, WEST-
INGHOUSE WANTED TO ASSURE US THAT IT WOULD ISSUE NO FORCE MAJEURE
LETTERS OR SIMILAR INSTRUMENTS WITHOUT FIRST GIVING THE US GOVERN-
MENT ADVANCE NOTICE. SECOND, THE INVESTOR (THE CROATIAN AND
SLOVENE ELECTRIC UTILITIES) HAD ASKED WESTINGHOUSE TO ISSUE A
LETTER IN WHICH WESTINGHOUSE WOULD SAY IT WOULD HAVE TO SUSPEND
CONSTRUCTION ACTIVITY IF THE INVESTOR DID NOT SOON SIGN OFF ON
ALL PROPOSED SCOPE CHANGES.

3. PARSONS EXPLAINED THAT CONSIDERABLE PROGRESS HAD BEEN MADE IN
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NEGOTIATING THE SCOPE CHANGES, AND THE INVESTOR FINALLY WAS ABLE
TO AGREE TO APPROVE ALL EXCEPT ONE OF THE SCOPE CHANGES. UN-
FORTUNATELY, THIS ONE CHANGE WHICH COVERED SEISMIC ASPECTS, ACCOUNTED
FOR ABOUT 75 PERCENT OF THE VALUE OF ALL CHANGES.

4. THE INVESTOR HAS TOLD WESTINGHOUSE INFORMALLY THAT THEY UNDER-
STAND THE NECESSITY OF GETTING ALL SCOPE CHANGES APPROVED AND MOVING

FORWARD QUICKLY BUT FEEL THAT WITHOUT SOME FORM OF SHOCK TREATMENT THEY WILL NOT BE ABLE TO PERSUADE YUGOSLAV GOVERNMENT OFFICIALS AND OTHERS WHO MUST ACQUIESCE TO ALSO ACT QUICKLY. HENCE, THEY (THE INVESTOR) WOULD LIKE A DOSE OF STRONG MEDICINE WHICH CAN BE USED TO BRING THE OTHERS ALONG. PARSONS STATED THAT HE COUNSELED AGAINST THIS TACTIC BECAUSE ONCE SUCH A LETTER HAS BEEN ISSUED, IT REMOVES ANY CHANCE TO BE FLEXIBLE. HOWEVER, ACCORDING TO PARSONS, THE INVESTOR INSISTS UPON HAVING THE LETTER. PARSONS AND SIMMONS WILL TAKE THE REQUEST BACK TO PITTSBURGH FOR REVIEW AT A HIGHER LEVER.

5. ON THE EXPORT LICENSE ISSUE, PARSONS AND SIMMONS COMMENTED THAT THE INVESTOR AND OTHER YUGOSLAVS WITH WHOM THEY HAVE BEEN IN TOUCH IN RECENT DAYS, BELIEVE THE LICENSE PROBLEM IS ON THE ROAD TO RESOLUTION AND ARE OPTIMISTIC THAT ULTIMATELY THERE WILL BE A FAVORABLE OUTCOME. THE O'TOOLE PIECE WHICH HAD JUST APPEARED IN THE WASHINGTON POST DID NOT SEEM TO CONCERN PARSONS AND SIMMONS PARTICULARLY. THEY TERMED IT "ACCURATE" AND THOUGHT IT GAVE A FAIR STATEMENT OF THE WESTINGHOUSE POSITION. ALTHOUGH THERE WERE OBVIOUS QUOTES FROM WESTINGHOUSE SOURCES, THEY SAID THEY WERE CERTAIN THE STORY DID NOT ORIGINATE WITH WESTINGHOUSE.

6. COMMENTS: IN VISIT TO SITE MARCH 23, EXIMBANK DELEGATION ACCOMPANIED BY CONGEN AND EMBASSY OFFICERS SPOKE TO THE KRKO INVESTORS, INCLUDING SENIOR OFFICIALS OF CROATIAN AND SLOVENE ELECTRIC UTILITIES. WE DID NOT INQUIRE ABOUT NOTION OF POSSIBLE SUSPENSION LETTER SINCE THIS MATTER WOULD APPEAR TO BE STRICTLY BETWEEN THE INVESTORS AND WESTINGHOUSE. HOWEVER, INVESTORS GAVE NO RPT NO INDICATION THAT THEY WISHED TO RECEIVE "SHOCK TREATMENT" DESCRIBED BY PARSONS. ON THE CONTRARY, THE INVESTORS INDICATED CONFIDENTIAL

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THAYVHILE THEY HAD AGREED TO ALL SCOPE CHANGES EXCEPT SEISMIC, THEY WERE DELIBERATELY PROCRASTINATING SIGNATURE OF CONTRACT CHANGES WITH WESTINGHOUSE. SCOPE CHANGES WOULD REQUIRE INVESTORS TO OPEN IMMEDIATE LETTER OF CREDIT BUT NECESSARY FINANCING FAR FROM BEING IN PLACE. JUDGING FROM THEIR DISCUSSION WITH EXIMBANK, INVESTORS APPEARED TO HAVE CONCLUDED THAT IT WOULD BE PREMATURE TO SEEK FINANCING UNTIL OTHER ISSUES, PARTICULARLY ISSUANCE OF EXPORT LICENSE, HAVE BEEN PUT IN PLACE. THEREFORE, "SHOCK TREATMENT" MIGHT BE COUNTERPRODUCTIVE.

7. RE THE SEISMIC SCOPE CHANGE, PRICE HAD BECOME THE BIGGEST PROBLEM. WE WERE TOLD DURING THE SITE VISIT THAT WESTINGHOUSE HAD JUST TELEXED REVISED OFFER WHICH, THE INVESTORS HOPED, COULD PERMIT EARLY RESOLUTION OF THIS ISSUE.
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